METRO-GOLDWYN-MAYER INC
Form 8-K/A
June 18, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(AMENDMENT NO. 1)

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 2, 2001

METRO-GOLDWYN-MAYER INC.
(Exact name of registrant as specified in its charter)

Delaware	1-13481	95-4605850
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

2500 Broadway Street, Santa Monica, CA	90404
(Address of principal executive offices)	(Zip Code)

(310) 449-3000
(Registrant's telephone number, including area code)

None
(Former name or former address, if changed since last report.)

Item 7. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired.

Enclosed herein as Exhibits EXA and EXB are the audited Combined Financial Statements of the Cable Channels for the years ended December 31, 2000 and 1999, and the unaudited Condensed Combined Financial Statements of the Cable Channels for the three months ended March 31, 2001.

(b) Pro Forma Financial Information.

Metro-Goldwyn-Mayer Inc.
Pro Forma Condensed Combining Financial Statements

The following unaudited pro forma condensed combining statement of operations for the year ended December 31, 2000 gives effect to (i) the investment in the Cable Channels (as defined below), (ii) the consummation of the equity offerings and the application of the net proceeds therefrom, and (iii) the additional bank borrowings utilized to finance the investment in the Cable Channels, as if they had occurred on January 1, 2000. The unaudited pro forma condensed combining statement of operations for the quarter ended March 31, 2001 gives effect to such transactions, as if they had occurred on January 1, 2001. The unaudited pro forma condensed consolidated balance sheet at March 31, 2001 gives effect to such transactions, as if they had occurred on March 31, 2001.

On April 2, 2001, Metro-Goldwyn-Mayer Inc. ("MGM", or "the Company") invested $825,000,000 in cash for a 20 percent interest in two general partnerships which own and operate the American Movie Channel, Bravo, the Independent Film Channel and WE: Women's Entertainment (formerly Romance Classics), collectively referred to as the "Cable Channels". These partnerships were wholly-owned by Rainbow Media Holdings, Inc., a 74 percent subsidiary of Cablevision Systems Corporation. The proceeds of the $825,000,000 investment were used as follows: (i) $365,000,000 was used to repay bank debt of the partnerships; (ii) $295,500,000 was used to repay intercompany loans from Cablevision and its affiliates; and (iii) $164,500,000 was added to the working capital of the partnerships. The Company financed the investment through the sale of equity securities, which provided aggregate net proceeds of approximately $635,600,000, and borrowings under our credit facilities. The Company is accounting for its investment in the Cable Channels under the equity method of accounting.

The pro forma adjustments are based upon currently available information and upon certain assumptions that management of the Company believes are reasonable. The adjustments included in the unaudited pro forma condensed combining financial statements represent the Company's preliminary determination of these adjustments based upon available information. There can be no assurance that the actual adjustments will not differ significantly from the pro forma adjustments reflected in the pro forma financial information.

The unaudited pro forma condensed combining financial statements are based on the historical financial statements of each of the Company and the Cable Channels and the assumptions and adjustments described in the accompanying notes. The Company believes that the assumptions on which the unaudited pro forma condensed financial statements are based are reasonable. The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only and do not purport to represent what the Company's financial position or results of operations actually would have been if the foregoing transactions occurred as of the dates indicated or what such results will be for any future periods. The unaudited pro forma condensed combining financial statements should be read in conjunction with the Consolidated Financial Statements and the related notes thereto for the Cable Channels included elsewhere in this filing.

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Metro-Goldwyn-Mayer Inc.
Pro Forma Condensed Combining Statement of Operations
Year Ended December 31, 2000
(in thousands, except share data)

	MGM Historical	Pro Forma Adjustments

Revenues	$ 1,237,447	$ -	
Expenses:			
Film and television production and distribution	1,019,897	-	
General and administrative expenses	89,419	-	
Severance and related costs	(3,715)	-	
Depreciation and non-film amortization	28,648	-	
Total expenses	1,134,249	-	
Operating income	103,198	-	
Other income (expense):			
Equity in net earnings (losses) of Cable Channels	-	10,320	(
		(812)	(
		(37,297)	(
		6,065	(
Interest expense, net of capitalized interest	(51,425)	(14,986)	(
Interest and other income, net	12,706	-	
Total other expense	(38,719)	(36,710)	
Income from operations before provision for income taxes	64,479	(36,710)	
Income tax provision	(13,480)	-	(
Net income	$ 50,999	$ (36,710)	
Income per share:			
Basic	$ 0.25		
Diluted	$ 0.24		
Weighted average number of common shares outstanding:			
Basic	204,797,589		
Diluted	210,313,274		

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Pro Forma Footnotes (in thousands, except share data)

(1) To record MGM share of Cable Channels' reported net income for the year ended December 31, 2000, computed as follows:

Cable Channels' net income	$51,599
MGM equity %	20%
MGM share of Cable Channels' net income	$10,320

(2) Represents MGM 20% share of amortization of Cable Channels' identifiable intangible assets of $40,577 over ten years.

(3) Represents amortization of Cable Channels' excess purchase price of $745,942

over a 20 year period.

(4) Represents elimination of MGM 20% share of Cable Channels' interest costs on bank debt repaid with investment proceeds.

(5) Represents interest costs on MGM bank borrowings of $164,500 to finance remaining portion of investment in the Cable Channels after utilitization of equity proceeds, at MGM's effective borrowing rate.

(6) Assumes no provision for income taxes due to MGM's tax loss carryforward position.

(7) Assumes issuances of equity securities and conversion of Series B Preferred Stock of MGM as of beginning of the period, computed as follows;

	Basic	Diluted
Historical weighted average shares	204,797,589	210,313,274
Common stock issuances	16,080,590	16,080,590
Conversion of preferred stock	15,715,667	15,715,667
Pro forma weighted average shares	236,593,846	242,109,531

Metro-Goldwyn-Mayer Inc.
Pro Forma Condensed Combining Statement of Operations
Quarter Ended March 31, 2001
(in thousands, except share data)

	MGM Historical	Pro For Adjustme
Revenues	$ 343,896	$
Expenses:		
Operating	140,289	
Selling, general and administrative expenses	205,095	
Depreciation and non-film amortization	7,945	
Total expenses	353,329	
Operating loss	(9,433)	
Other income (expense):		
Equity in net earnings (losses) of Cable Channels	-	3,78 (20 (9,32 1,45

Interest expense, net of capitalized interest	(9,453)	(3,42
Interest and other income, net	5,777	
Total other expense	(3,676)	(7,72
Loss from operations before provision for income taxes	(13,109)	(7,72
Income tax provision	(4,412)	
Net loss before cumulative effect of accounting change	(17,521)	(7,72
Cumulative effect of accounting change	(382,318)	
Net loss	$ (399,839)	$ (7,72
Loss per share:		
Basic and diluted		
Net loss before cumulative effect of accounting change	$ (0.08)	
Cumulative effect of accounting change	(1.78)	
Net loss	$ (1.86)	
Weighted average number of common shares outstanding:		
Basic and diluted	214,935,765	

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Pro Forma Footnotes (in thousands, except share data)

(1) To record MGM share of Cable Channels' reported net income for the quarter ended March 31, 2001, computed as follows:

Cable Channels' net income	$18,915
MGM equity %	20%
MGM share of Cable Channels' net income	$ 3,783

(2) Represents MGM 20% share of amortization of Cable Channels' identifiable intangible assets of $40,577 over ten years.

(3) Represents amortization of Cable Channels' excess purchase price of $745,942 over a 20 year period.

(4) Represents elimination of MGM 20% share of Cable Channels' interest costs on bank debt repaid with investment proceeds.

(5) Represents interest costs on MGM bank borrowings of $164,500 to finance remaining portion of investment in the Cable Channels after utililization of equity proceeds, at MGM's effective borrowing rate.

(6) Assumes no provision for income taxes due to MGM's tax loss carryforward position.

(7) Assumes issuances of equity securities and conversion of Series B Preferred Stock of MGM as of beginning of the period, computed as follows:

	Basic and Diluted
Historical weighted average shares	214,935,765
Common stock issuances	8,600,236
Conversion of preferred stock	15,715,667
Pro forma weighted average shares	239,251,668

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Metro-Goldwyn-Mayer Inc.
Pro Forma Condensed Combining Balance Sheet
March 31, 2001
(in thousands, except share data)

ASSETS	MGM Historical	Pro For Adjustme
Cash and cash equivalents	$ 687,051	$ 164,500 (825,000
Accounts and contracts receivable, net	431,113	-
Film and television costs, net	2,074,041	-
Investments and advances to affiliates	12,966	825,000
Property and equipment, net	44,349	-
Excess of cost over net assets of acquired businesses, net	527,756	-
Other assets	35,069	-
	$ 3,812,345	$ 164,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Bank and other debt	$ 709,368	$ 164,500
Accounts payable and accrued liabilities	183,076	-
Accrued participants' share	236,145	-
Income taxes payable	32,522	-
Advances and deferred revenues	86,576	-
Other liabilities	27,320	-
Total liabilities	1,275,007	164,500
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized,		

15,715,667 shares issued and outstanding, none issued and outstanding, as adjusted	157	(157
Common stock, $.01 par value, 500,000,000 shares authorized, 223,595,529 shares issued and outstanding, 239,311,196 shares issued and outstanding, as adjusted	2,236	157
Additional paid- in capital	3,712,482	-
Deficit	(1,165,346)	-
Accumulated other comprehensive income	(12,191)	-
Total stockholders' equity	2,537,338	-
	$ 3,812,345	$ 164,500

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Pro Forma Footnotes (in thousands, except share data)

(1) To record MGM bank borrowings of $164,500 to partially finance remaining purchase price of Cable Channels.

(2) To record purchase of Cable Channels for $825,000 in cash.

(3) To record the conversion of 15,715,667 shares of Series B Preferred Stock of MGM into common stock on a share-for-share basis.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

METRO-GOLDWYN-MAYER INC.

/s/ Jay Rakow

Dated: June 18, 2001

By: ______________________________

Jay Rakow
Senior Executive Vice President
and General Counsel

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[LOGO]

AMERICAN MOVIE CLASSICS COMPANY
AND SUBSIDIARIES
AND

BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Combined Financial Statements

Years ended December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

[LOGO]

1305 Walt Whitman Road
Suite 200
Melville, NY 11747-4302

Independent Auditors' Report

The Partners
American Movie Classics Company and Bravo Company:

We have audited the accompanying combined balance sheets of American Movie Classics Company (a general partnership) and subsidiaries and Bravo Company (a general partnership) and subsidiaries (collectively, the "Company"), a wholly-owned operation of Rainbow Media Holdings, Inc. as described in note 1, as of December 31, 2000 and 1999, and the related combined statements of operations, partners' deficiency and cash flows for each of the years in the three-year period ended December 31, 2000. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in note 1, these combined financial statements exclude the financial position and results of operations of certain developmental subsidiaries of Bravo Company (the "Omitted Bravo Subsidiaries") which, in our opinion, should be consolidated with those of the Company. If these subsidiaries were consolidated, total assets would be approximately $531.6 million and $520.7 million, and partners' deficiency would be approximately $179.4 million and $161.4 million, as of December 31, 2000 and 1999, respectively. Additionally, net income (loss) would be approximately $43.2 million, $14.0 million, and $(2.6) million for the years ended December 31, 2000, 1999 and 1998, respectively.

In our opinion, except for the effects of not consolidating the Omitted Bravo Subsidiaries as described in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Company, a wholly-owned operation of Rainbow Media Holdings, Inc., at December 31, 2000 and 1999, and the combined results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

March 29, 2001

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Combined Balance Sheets

December 31, 2000 and 1999
(in thousands)

Assets	2000
Current assets:	
Cash	$ 28
Trade accounts receivable (less allowance for doubtful accounts of $3,227 and $7,986)	56,106
Trade accounts receivable-affiliates, net	17,420
Other receivables-affiliates, net	20,884
Note receivable	4,000
Prepaid expenses and other current assets	4,558
Current feature film inventory, net	61,017
Total current assets	164,013
Long-term feature film inventory, net	278,502
Plant and equipment, net	28,407
Deferred carriage fees, net	17,342
Deferred costs, net of accumulated amortization of $2,095 and $1,419	2,629
Intangible assets, net of accumulated amortization of $131,227 and $113,282	54,205
	$ 545,098
Liabilities and Partners' Deficiency	
Current liabilities:	
Accounts payable	$ 36,232
Accrued payroll and related costs	8,020
Other accrued expenses	12,264
Accounts payable-affliates, net	15,193
Feature film rights payable, current	50,946
Deferred carriage fees payable	7,081
Bank debt, current	31,322
Capital lease obligations, current	3,961
Total current liabilities	165,019
Bank debt, long-term	328,000
Feature film rights payable, long-term	197,021
Capital lease obligations, long-term	17,008

Total liabilities	707,048
Commitments and contingencies	
Partners' deficiency	(161,950)
	$ 545,098

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Combined Statements of Operations

Years ended December 31, 2000, 1999 and 1998
(in thousands)

	2000	1999	1998
Revenues, net (including affiliate amounts of $68,708, $62,570, and $43,171)	$ 359,664	$ 295,525	$ 226,612
Operating expenses:			
Technical and operating (including affiliate amounts of $12,106, $11,773, and $10,946)	112,346	102,702	83,531
Selling, general and administrative (including affiliate amounts of $38,283, $31,299, and $23,021)	145,677	122,991	98,435
Depreciation and amortization	25,228	27,686	27,351
	283,251	253,379	209,317
Operating income	76,413	42,146	17,295
Other income (expense):			
Interest expense, net	(30,324)	(21,352)	(17,745)
Gain on sale of programming division	5,716	--	--
Miscellaneous, net	(206)	(210)	(71)
Write-off of deferred financing costs	--	(1,413)	--
	(24,814)	(22,975)	(17,816)
Net income (loss)	$ 51,599	$ 19,171	$ (521)

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Combined Statements of Partners' Deficiency

Years ended December 31, 2000, 1999, and 1998
(in thousands)

Balance, December 31, 1997	$ (49,785)
Contributions	9,917
Net loss	(521)
Distributions	(16,350)
Balance, December 31, 1998	(56,739)
Contributions	10,350
Net income	19,171
Distributions	(125,000)
Balance, December 31, 1999	(152,218)
Contributions	12,661
Net income	51,599
Distributions	(73,992)
Balance, December 31, 2000	$ (161,950)

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Combined Statements of Cash Flows

Years ended December 31, 2000, 1999 and 1998
(in thousands)

	2000	1999
Cash flows from operating activities:		
Net income (loss)	$ 51,599	$ 19,171

Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	25,228	27,686
CSC stock appreciation rights expense allocation	12,661	10,350
Amortization of feature film inventory	53,398	42,936
Amortization of deferred carriage fees	6,849	4,606
Amortization and write-off of deferred costs	918	1,922
Gain on sale of programming division	(5,716)	-
Changes in assets and liabilities, net of effect of disposition:		
Trade accounts receivable, net	(17,101)	(10,839
Trade accounts receivable-affiliates, net	(4,812)	(1,231
Other receivables-affiliates, net	(16,198)	(2,562
Prepaid expenses and other current assets	(3,410)	3,536
Feature film inventory	(66,510)	(113,050
Deferred carriage fees	(4,435)	(24,362
Accounts payable and accrued expenses	1,003	2,083
Accounts payable-affiliates, net	(2,460)	6,787
Deferred carriage fees payable	3,694	3,387
Feature film rights payable	(15,663)	52,173
Net cash provided by operating activities	19,045	22,593
Cash flows provided by (used in) investing activities:		
Capital expenditures	(3,651)	(5,079
Net proceeds from sale of programming division	8,828	-
Net cash provided by (used in) investing activities	5,177	(5,079
Cash flows used in financing activities:		
Proceeds from bank debt	114,225	383,208
Repayment of bank debt	(64,359)	(269,292
Contribution from RMH	-	-
Distributions to partners	(70,000)	(125,000
Principal payments on capital lease obligation	(4,133)	(3,732
Financing costs on bank debt	(9)	(2,715
Net cash used in financing activities	(24,276)	(17,531
Net decrease in cash	(54)	(17
Cash at beginning of year	82	99
Cash at end of year	$ 28	$ 82

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

Notes to Combined Financial Statements

December 31, 2000 and 1999

(dollars in thousands)

(1) Summary of Significant Accounting Policies

Description of Business

American Movie Classics Company ("AMCC") and Bravo Company ("Bravo") are general partnerships organized as of January 1, 1987, and January 1, 1980, respectively, under the provisions of New York State Partnership Law. The AMCC partnership will terminate January 1, 2086, unless earlier termination occurs as provided for in AMCC's partnership agreement, and the Bravo partnership will terminate on April 20, 2088, unless earlier termination occurs as provided for in Bravo's partnership agreement, as amended. AMCC and subsidiaries and Bravo and certain subsidiaries (collectively, the "Company") are operated as an integral part of Rainbow Media Holdings, Inc. ("RMH"). RMH is a 74% owned indirect subsidiary of Cablevision Systems Corporation ("CSC").

The Company produces, markets and distributes the American Movie Classics ("AMC"), Romance Classics, Bravo and Independent Film Channel services to the pay television industry located throughout the United States. Accordingly, the Company considers itself to be operating in a single industry segment. On December 6, 2000, the Romance Classics service was renamed as WE: Women's Entertainment ("WE").

On January 4, 2001, Bravo assigned its interests in certain developmental subsidiaries, including IFC Productions, LLC, Next Wave Films, LLC, IFC Theatres, LLC and IFC Films, LLC (collectively, the "Omitted Bravo Subsidiaries") to RMH. On January 31, 2001, RMH signed a definitive agreement with Metro-Goldwyn-Mayer, Inc. ("MGM") pursuant to which a subsidiary of MGM will invest $825,000 to acquire a 20% interest in AMCC and Bravo as they existed on such date.

Principles of Combination and Basis of Presentation

The accompanying combined financial statements include the accounts of AMCC and its wholly-owned subsidiaries and the accounts of Bravo and its wholly-owned subsidiaries, excluding the Omitted Bravo Subsidiaries, to present the combined financial position and results of operations of the businesses in which MGM acquired a 20% interest, as described above. All significant intercompany transactions and balances are eliminated in combination.

Revenue Recognition

The Company recognizes subscriber revenue when programming services are provided to cable television systems or other pay television operators. Advertising revenue is recognized when commercials are telecast.

December 31, 2000 and 1999

(dollars in thousands)

Feature Film Inventory

Rights to feature film inventory acquired under license agreements along with the related obligations are recorded at the contract value. Costs are amortized on the straight-line basis over the respective license periods throughout the contract term. Film telecast rights to be amortized within one year are classified as current assets while contract amounts payable within one year are classified as current liabilities. License periods generally range from one to three years. Perpetual television exhibition rights acquired under certain purchase agreements were recorded at the present value of the obligations (with the remainder recorded as imputed interest) and were being amortized over a period of eighteen years. On December 14, 2000, the perpetual television exhibition rights purchase agreements were assigned to RMH. The assignment of the net book value of the assets and the related obligations of $3,992 was recorded as a partner distribution.

Amounts payable subsequent to December 31, 2000, related to feature film rights amount to $50,946 in 2001, $43,436 in 2002, $40,874 in 2003, $34,372 in 2004, $17,776 in 2005 and $60,563 thereafter. During 1999, the Company reduced feature film inventory and rights payable by approximately $27,000 in connection with an amendment to an existing film license agreement (see note 6).

Plant and Equipment

Plant and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation on plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets or, with respect to equipment under capital leases and leasehold improvements, amortized over the shorter of the lease term or the assets' useful lives.

Deferred Carriage Fees

Deferred carriage fees primarily represent payments to multiple systems operators to guarantee carriage of the services and are amortized over the period of the related guarantee (3 to 5 years).

Deferred Costs

Deferred costs consist of costs incurred to obtain debt and costs that represent prepayments to secure transponder space on a satellite. Deferred financing costs are amortized into interest expense over the life of the related debt. Deferred transmission costs are amortized to technical expense over the projected life (12 years) of the satellite.

December 31, 2000 and 1999

(dollars in thousands)

Intangible Assets

Intangible assets established in connection with the acquisition of interests in the Company in 1994 and 1995 consist of affiliation agreements, feature film intangibles and excess costs over fair value of net assets acquired. Affiliation agreements represent the value assigned to agreements with cable systems to carry the AMC service, and are amortized over a 10-year period on the straight-line basis. Feature film intangibles represent the value assigned to agreements with film distributors for the rights to exhibit films on the AMC service, and are amortized over a 6-year period on the straight-line basis. Feature film intangibles were fully amortized during 2000. Excess costs over fair value of net assets acquired are being amortized over a 10-year period on the straight-line basis.

Income Taxes

AMCC and Bravo operate as general partnerships; accordingly, their taxable income or loss is included in the tax returns of the individual partners, and the Company makes no provision for income taxes.

Supplemental Cash Flow Information

During the years ended December 31, 2000, 1999 and 1998, the Company paid cash interest expense of $31,116, $20,785 and $17,811, respectively. Proceeds from the sale of the Company's Bravo Latin America ("BLA") division during 2000 included $4,000 in the form of a note receivable (see note 2).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Accounting Standards Issued But Not Yet Adopted

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), establishes comprehensive standards for the recognition and measurement of derivatives and hedging activities. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company does not expect that the adoption of SFAS 133 will have a material effect on the Company's financial position or results of operations.

(2) Disposition

On October 31, 2000 the Company completed the sale of its BLA division for gross proceeds of $13,496, of which $4,000 was in the form of a note receivable. The note receivable, bearing interest at 8.5%, was paid in full in January 2001. In conjunction with the sale, the Company entered into an agreement to cancel both its capital and operating leases on transponders covering this geographic region in 2001. As a result of these cancellations, the Company recognized a loss of approximately $2,686, representing lease termination penalties of $2,562 and periodic rental payments for the period the transponders will not be used. Total payments due for these leases are $3,182, which are payable in 2001 and are included in accrued expenses in the accompanying combined balance sheet at December 31, 2000. After adjusting for the cost of the net assets sold and for the expenses associated with the divestiture, including accrued employee termination benefits of approximately $700 for eight employees, the Company realized a gain of approximately $5,716.

(3) Plant and Equipment

Plant and equipment consist of the following:

	December 31 2000	December 31 1999	Estimated useful lives
Program, service and test equipment	$ 13,818	$ 11,729	5 to 8 years
Origination equipment	33,950	39,644	8 to 12 year
Furniture and fixtures	6,126	4,560	5 to 8 years
Leasehold improvements	3,134	3,134	Life of leas
	57,028	59,067	
Less accumulated depreciation and amortization	28,621	23,675	
	$ 28,407	$ 35,392	

(4) Intangible Assets

Intangible assets consist of the following:

	December 31, 2000	December 31, 1999
Affiliation agreements, net of accumulated amortization of $93,311 and $78,776	$ 52,135	$ 66,670
Feature film intangibles, net of accumulated amortization of $35,017 and $32,099	-	2,918
Excess costs over fair value of net assets acquired, net of accumulated amortization of $2,899 and $2,407	2,070	2,562
	$ 54,205	$ 72,150

(dollars in thousands)

(5) Bank Debt

AMCC has a Credit Agreement that matures on March 31, 2006 and consists of a term loan and a revolving loan. On May 12, 1999 the Credit Agreement was amended and restated, increasing the term loan from $124,000 to $225,000 and the revolving loan from $100,000 to $200,000. Borrowings under the Credit Agreement bear interest at varying rates based upon the banks' Base Rate or Eurodollar Rate, depending on the ratio of debt to cash flow, as defined.

On November 8, 1999, AMCC entered into an interest rate swap agreement with CSC on a notional amount of $105,000, which matures May 13, 2002 whereby AMCC is required to pay a floating rate of interest based on LIBOR in exchange for fixed rate payments of 7.0% through May 8, 2001 and 7.5% from May 8, 2001 though May 13, 2002. AMCC enters into interest rate swap agreements to hedge against interest rate risk, as required by its Credit Agreement, and therefore accounts for these agreements as hedges of floating rate debt, whereby interest expense is recorded using the revised rate, with any fees or other payments amortized as yield adjustments.

At December 31, 2000 and 1999, the weighted-average interest rate on bank indebtedness approximated 7.9% and 7.6%, respectively. The term loan will begin amortizing March 31, 2001 and requires quarterly amortization payments. The revolving loan does not start to reduce until June 30, 2004. On December 31, 2000 and 1999, $225,000 was outstanding under the term loan, and $130,000 and $83,000 was outstanding under the revolving loan, respectively. Unrestricted and undrawn funds under the credit agreement at December 31, 2000 and 1999 amounted to $70,000 and $117,000, respectively.

Substantially all of the assets of AMCC have been pledged to secure the borrowings under the Credit Agreement. The Credit Agreement contains various restrictive covenants with which AMCC was in compliance at December 31, 2000. AMCC must pay an annual commitment fee of 0.625% on the aggregate unborrowed balance of the revolver, which was $469 and $629, at December 31, 2000 and 1999, respectively. Amounts payable under the Credit Agreement, including $4,322 payable in 2001 for bank overdrafts, during the five years subsequent to December 31, 2000 are as follows:

Year ending December 31,	
2001	$ 31,322
2002	29,250
2003	36,000
2004	61,250
2005	160,750

BRAVO COMPANY AND SUBSIDIARIES
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Notes to Combined Financial Statements

December 31, 2000 and 1999

(dollars in thousands)

(6) Affiliate Transactions

The Company distributes programming to the pay television industry under contracts called affiliation agreements. Revenues earned under affiliation agreements with companies owned by or affiliated with CSC for the years ended December 31, 2000, 1999 and 1998 were approximately $68,255, $62,570 and $43,171, respectively.

Under contractual agreements, CSC provides certain management services to AMCC. These agreements provide for payment, in addition to expense reimbursement, of an aggregate fee of 3.5% of AMCC's gross revenues, as defined. The agreements are automatically renewable every five years at the option of CSC. Pursuant to the terms of these agreements, AMCC was charged management fees of $7,699, $6,832 and $5,710 in 2000, 1999 and 1998, respectively.

CSC also provides the Company with certain administrative, creative and production services and office facilities. The Company was charged approximately $7,169, $7,289 and $4,839 in 2000, 1999 and 1998, respectively, for these services.

Rainbow Network Communications, an affiliate of the Company, provides certain transmission and production services to the Company. The Company was charged approximately $12,106, $11,773 and $10,946 in 2000, 1999 and 1998, respectively, for these services.

RMH provides the Company with certain administrative and computer services, and office facilities. The Company was charged approximately $10,754, $6,828 and $6,055 in 2000, 1999 and 1998, respectively, for these services.

During 1999 and 1998, AMCC provided certain administrative, creative and production services to various affiliates. The affiliates were charged $1,155 and $913 for the years ended December 31, 1999 and 1998, respectively, for these services, which was recorded as a reduction to operating expenses.

During 1999, CSC entered into a new affiliation agreement with a service provider that resulted in higher rates per subscriber charged to CSC than those under the previous agreement. As part of the negotiations, the service provider agreed to amend the existing film license agreement with the Company with both reduced license fees and a revised list of film titles licensed. Since the Company received the benefit of CSC's negotiations in the form of discounted license fees, CSC charged the Company $10,000, which was treated as a cost to acquire the rights to the revised list of film titles and classified as feature film inventory.

(Continued)

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
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December 31, 2000 and 1999

(dollars in thousands)

RMH pays the Company for advertising revenue earned in connection with an agreement between RMH and a third party entered into during 2000. Such revenues were $453 for the year ended December 31, 2000.

CSC charges the Company for its proportionate share of costs related to CSC Stock Appreciation Rights (SARs) granted to employees of the Company. For the years ended December 31, 2000, 1999 and 1998, the Company was charged approximately $12,661, $10,350 and $6,417, respectively, for its proportionate share of CSC SAR expenses. Such charges are included in administrative expenses in the accompanying combined statements of operations. As the costs of all CSC SAR grants are borne solely by CSC, such amounts are reflected as partner contributions.

(7) Benefit Plans

CSC sponsors a cash balance pension plan and a 401(k) savings plan in which the Company and its subsidiaries participate. In connection with the cash balance plan, CSC charges the Company for credits made into an account established for each participant. Such credits are based upon a percentage of eligible base pay and a market-based rate of return. The Company also makes matching contributions for a portion of employee voluntary contributions to the 401(k) savings plan. Total expense related to these plans was approximately $543, $500 and $429 for the years ended December 31, 2000, 1999 and 1998, respectively. The Company does not provide post retirement benefits for any of its employees.

(8) Leases

The Company leases transponder space on several satellites and certain facilities under operating lease agreements that expire at various dates through 2006. Rent expense for operating leases amounted to approximately $4,096, $2,994 and $2,923 for the years ended December 31, 2000, 1999 and 1998, respectively. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2000, excluding the operating lease cancelled in conjunction with the sale of BLA (see note 2):

(Continued)

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
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Notes to Combined Financial Statements

December 31,2000 and 1999

(dollars in thousands)

Year ending December 31,	
2001	$ 2,787
2002	2,044
2003	2,047
2004	2,016
2005	1,848
Thereafter	1,800
Total minimum lease payments	$ 12,542

The Company leases transponder space on satellites under capital leases that expire at various dates through 2006. At December 31, 2000 and 1999, the gross amount of equipment and related accumulated amortization recorded under capital leases was as follows:

	2000	1999
Origination equipment	$ 33,218	$ 38,912
Less accumulated amortization	(15,680)	(13,483)
	$ 17,538	$ 25,429

Future minimum capital lease payments as of December 31, 2000, excluding the capital lease cancelled in conjunction with the sale of BLA (see note 2), are:

Year ending December 31,	
2001	$ 5,880
2002	5,880
2003	5,880
2004	5,520
2005	1,560
Thereafter	1,560
Total minimum lease payments	26,280

December 31, 2000 and 1999

(dollars in thousands)

Less amount representing interest (10%)	$ 5,311
Present value of net minimum capital lease payments	20,969
Less current installments	3,961
Obligations under capital leases, excluding current installments	$ 17,008

(9) Commitments and Contingencies

The Company has entered into various contracts with the Omitted Bravo Subsidiaries and RMH to license films for pay television programming beginning in 2001. Maximum future cash payments required under these contracts as of December 31, 2000 are as follows:

Year ending December 31,	
2001	$ 9,490
2002	9,990
2003	10,240
2004	10,240
2005	10,240
Thereafter	3,430
	$ 53,630

Broadcast Music, Inc. ("BMI"), an organization which licenses the performance of the musical compositions of its affiliated composers, authors and publishers, has alleged that the Company needs a license to exhibit programs containing musical compositions in BMI's catalog and that continued use requires a license. In June 1992, the Company and BMI entered into a written license agreement covering the period January 1, 1990 through June 30, 1993, pursuant to which BMI agreed to an interim fee of 0.3% of net revenues. This agreement was extended several times and is currently extended on a month-to-month basis, terminable by either party on thirty days prior written notice.

(Continued)

December 31, 2000 and 1999

(dollars in thousands)

BMI agreed to treat as final all payments made by the Company for the period commencing on the launch date of each service and ending June 30, 1992. However, commencing with July 1, 1992, the license fees payable by the Company are subject to retroactive adjustment either at such time as the Federal Rate Court reaches a final determination or the parties reach final agreement.

On November 4, 1997, the Company requested a license from BMI covering public performances of music by WE and its affiliated distributors from the date of launch of WE. BMI, in response, had indicated that WE is licensed as of the date of that correspondence at an interim fee equaling 0.3% of WE's net revenues. That interim fee is subject to retroactive adjustment in the same manner as pertains to the license arrangements with BMI for the AMC service. BMI has indicated that it is willing to discuss an appropriate retroactive license fee back to the date of launch. Those discussions have not yet concluded.

The American Society of Composers, Authors and Publishers ("ASCAP"), another organization which licenses the performance of the musical compositions of its members, has also alleged that the Company needs a license to exhibit programs containing musical compositions in its catalog and that continued use requires a license. The subject of the fees to be paid to ASCAP and the manner in which they will be paid has been submitted to a Federal Rate Court in New York and is still pending. By submitting the matter to the Federal Rate Court, the Company has been licensed by ASCAP for periods subsequent to March 6, 1989, at an interim fee of 0.3% of net revenues per year. The interim fee is subject to retroactive adjustment when the Federal Rate Court reaches a final decision. In addition, ASCAP has sought payments for license fees for part or all of the period from January 1, 1986 to March 6, 1989.

On November 4, 1997, the Company requested from ASCAP a license covering the use of public performances of ASCAP music by WE and its affiliated distributors from the launch date of that service. ASCAP has agreed to license WE on an interim basis at the rate of 0.3% of WE's net revenues. That interim fee is subject to retroactive adjustment in the same manner as pertains to the license arrangements with ASCAP for the AMC service.

In addition, the Company is a party to various lawsuits arising out of the ordinary conduct of its business.

Management believes that the settlement of the above matters will not have a material adverse effect on the financial position of the Company.

(10) Concentrations of Credit Risk

During 2000, 1999 and 1998, the Company had three customers that collectively accounted for approximately 40% of net revenues in each year, and approximately 42% and 49% of the Company's net trade receivable balances at December 31, 2000 and 1999, respectively, including those due from affiliates, which exposes the Company to a concentration of credit risk.

(11) Disclosures about the Fair Value of Financial Instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Cash, Trade Accounts Receivable, Trade Accounts Receivable-Affiliates, Other Receivables-Affiliates, Accounts Payable, Accrued Expenses, Accounts Payable-Affiliates

The carrying amount approximates fair value due to the short-term maturity of these instruments.

Bank Debt

The estimated fair value of the Company's bank debt approximates its carrying value based on current rates offered to the Company for instruments of the same remaining maturity.

Interest Rate Cap Agreement

At December 31, 2000 and 1999, the fair value of the outstanding cap agreement was $840 (net receivable position) and $599 (net receivable position), respectively. Fair value was obtained from a dealer quote. This value represents the estimated amount the Company would receive to terminate the agreement, taking into consideration current interest rates and the current creditworthiness of the counterparty.

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES

CONDENSED COMBINED BALANCE SHEET

MARCH 31, 2001
(in thousands)
(unaudited)

ASSETS

Current assets:

Cash	$ 12
Trade accounts receivable (less allowance for doubtful accounts of $4,378)	60,673
Trade accounts receivable-affiliates, net	18,317
Other receivables-affiliates, net	6,687

Prepaid expenses and other current assets	7,947
Current feature film inventory, net	57,134
Total current assets	150,770
Long-term feature film inventory, net	274,267
Plant and equipment, net	26,904
Deferred carriage fees, net	15,739
Deferred costs, net of accumulated amortization of $2,264	2,461
Intangible assets, net of accumulated amortization of $135,468	50,460
	$ 520,601
LIABILITIES AND PARTNERS' DEFICIENCY	
Current liabilities:	
Accounts payable	$ 25,988
Accrued payroll and related costs	6,069
Other accrued expenses	11,177
Accounts payable-affiliates, net	8,934
Feature film rights payable, current	49,563
Deferred carriage fees payable	7,320
Bank debt, current	27,965
Capital lease obligations, current	4,061
Total current liabilities	141,077
Bank debt, long-term	333,687
Feature film rights payable, long-term	180,306
Capital lease obligations, long-term	15,956
Total liabilities	671,026
Commitments and contingencies	
Partners' deficiency	(150,425)
	$ 520,601

See accompanying notes to condensed combined financial statements.

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
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CONDENSED COMBINED STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001
(in thousands)
(unaudited)

Revenues, net	$ 104,423
Operating expenses:	
Technical and operating	33,340
Selling, general and administrative	39,364
Depreciation and amortization	5,569
	78,273
Operating income	26,150
Other income (expense):	
Interest expense, net	(7,250)
Miscellaneous, net	15
	(7,235)
Net income	$ 18,915

See accompanying notes to condensed combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
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CONDENSED COMBINED STATEMENT OF PARTNERS' DEFICIENCY

THREE MONTHS ENDED MARCH 31, 2001
(in thousands)
(unaudited)

Balance, December 31, 2000	$(161,950)
Contributions	10,994
Net income	18,915
Distributions	(18,384)
Balance, March 31, 2001	$(150,425)

See accompanying notes to condensed combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
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CONDENSED COMBINED STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2001
(in thousands)
(unaudited)

Net cash provided by operating activities	$ 7,086
Cash flows used in investing activities:	
Capital expenditures	(321)
Cash flows used in financing activities:	
Proceeds from bank debt	425,000
Repayment of bank debt	(422,670)
Contributions from partners	9,766
Distributions to partners	(17,925)
Principal payments on capital lease obligations	(952)
Net cash used in financing activities	(6,781)
Net decrease in cash	(16)
Cash at beginning of period	28
Cash at end of period	$ 12

See accompanying notes to condensed combined financial statements.

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(in thousands)
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed combined financial statements include the accounts of American Movie Classics Company and its wholly-owned subsidiaries and the accounts of Bravo Company and its wholly-owned subsidiaries (collectively, the "Company") to reflect the combined financial position and results of operations of the companies in which Metro-Goldwyn-Mayer Inc. ("MGM") acquired an interest, as described below. All significant intercompany transactions and balances are eliminated in combination. Interim financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete year-end financial statements.

Note 2. Cash Flows

The Company paid cash interest expense of approximately $7,437 for the three months ended March 31, 2001.

Note 3. Subsequent Events

On April 2, 2001, MGM acquired a 20% interest in the Company for $825,000 in cash.